

# Audit Report

Family Health Center, Inc.  
WIC Program

October 1, 2002 – September 30, 2003



Office of Audit  
Quality Assurance and Review Section  
October 2004



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI  
DIRECTOR

October 15, 2004

Anthony V. King, CEO  
Family Health Center, Inc.  
117 West Paterson  
Kalamazoo, Michigan 49007

Dear Mr. King:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Family Health Center, Inc. WIC Program for the period October 1, 2002 through September 30, 2003.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and the corrective action plan. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis.

The report finding results in total disallowed WIC grant funding of \$6,800. Please remit a check for \$6,800 payable to the State of Michigan to the following address by November 15, 2004:

Lisa Smyth, Manager  
Revenue Operations Section  
Accounting Division  
Michigan Department of Community Health  
P.O. Box 30437  
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager  
Quality Assurance and Review  
Office of Audit

cc: Alethia Carr, Director, WIC Division  
James B. Hennessey, Director, Office of Audit  
David Figg, Audit Manager, Office of Audit  
Lisa Smyth, Manager, Revenue Operations Section, Accounting Division

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## **DESCRIPTION OF AGENCY**

The Family Health Center, Inc. ("Agency") is organized as a not-for-profit agency, under the provisions of 501(c)(3) of the Internal Revenue Code. The Agency's Administrative Office is located in Kalamazoo, Michigan. The Agency operates under the legal supervision and control of its Board of Directors.

The Agency operates three health care facilities, with the purpose of improving the quality of life by providing excellent health care. Program services include: Head Start, Early Head Start, Other Child Based Programs, Housing, Literacy, Work First, Workforce Investment Act (WIA) Employment Programs, Women Infants and Children (WIC) Supplemental Food Program, Health & Nutrition Programs, and Other Community Service Programs.

## **FUNDING METHODOLOGY**

The Agency receives funding from various sources including United States Department of Health and Human Services, Family Independence Agency, African American Health Initiative, Healthy Babies–Head Start, private contributors, and from grant programs administered through the Michigan Department of Community Health (MDCH). MDCH grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of the grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

## **PURPOSE AND OBJECTIVES**

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Agency's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Agency's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

## SCOPE AND METHODOLOGY

We examined the Agency's records and activities for the fiscal period October 1, 2002 to September 30, 2003. We performed our review procedures in February 2004. Our review procedures included the following:

- Reviewed the most recent Family Health Center, Inc. Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed WIC equipment inventory and general Agency equipment inventory records.
- Reviewed WIC coupon inventory controls.

Our audit did not include a review of program content or quality of services provided.

## CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

### INTERNAL CONTROLS

**Objective 1:** To assess the Agency's effectiveness in establishing and implementing internal controls over the WIC Program.

**Conclusion:** The Agency was effective in establishing and implementing internal controls over the WIC Program. No internal control exceptions were noted.

## FINANCIAL REPORTING

**Objective 2:** To assess the Agency's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Agency generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted over reported fringe benefits and travel expenditures (Finding 2).

### **Finding**

#### **1. Over Reported Fringe Benefits and Travel Expenditures**

The Agency over reported fringe benefits and travel expenditures by \$6,681 and \$124, respectively.

In our comparison of the reported WIC fringe benefits and travel expenditures to the general ledger, we found that these costs were over reported by \$6,681 and \$124, respectively.

Per OMB Circular A-122, Attachment A, "To be allowable under an award, costs must meet the following general criteria...e. Be determined in accordance with generally accepted accounting principles (GAAP)...g. Be adequately documented."

An adjustment for these over reported costs is shown in the attached Statement of MDCH Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend the Agency implement review procedures to ensure reported expenditures are actual expenditures for WIC, and reported expenditures reconcile to the accounting records.

## MDCH SHARE OF COSTS AND BALANCE DUE

**Objective 3:** To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

**Conclusion:** The MDCH obligation under the WIC Program for fiscal year ended September 30, 2003, is \$265,302. The Agency owes the MDCH a balance of \$6,800 after considering revenues and allowable expenditures as shown in the attached Statement of MDCH Grant Program Revenues and Expenditures.

**Family Heath Center, Inc.**  
**WIC Supplemental Food Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/02 - 9/30/03**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH Grant	\$272,102	\$272,102 <b>1</b>	(\$6,800)	\$265,302
Local Funds	\$0	\$5	(\$5)	\$0
<b>TOTAL REVENUES</b>	<b>\$272,102</b>	<b>\$272,107</b>	<b>(\$6,805)</b>	<b>\$265,302</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$184,958	\$186,061	\$0	\$186,061
Fringe Benefits	\$40,910	\$43,254	(\$6,681) <b>2</b>	\$36,573
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$17,322	\$17,978	\$0	\$17,978
Travel	\$2,124	\$1,734	(\$124) <b>3</b>	\$1,610
Communications	\$0	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$26,788	\$23,080	\$0	\$23,080
Indirect Cost	\$0	\$0	\$0	\$0
<b>TOTAL EXPENDITURES</b>	<b>\$272,102</b>	<b>\$272,107</b>	<b>(\$6,805)</b>	<b>\$265,302</b>

**1** Actual MDCH payments. MDCH funding was provided on a performance reimbursement basis.

**2** Over Reported Fringe Benefits Expense - Adjusted to actual (Finding Number 1).

**3** Over Reported Travel Expense - Adjusted to actual (Finding Number 1).

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Over Reported Fringe Benefits and Travel Expenditures

The Agency over reported fringe benefits and travel expenditures by \$6,681 and \$124, respectively.

**Recommendation:** Implement review procedures to ensure reported expenditures are actual expenditures for WIC, and reported expenditures reconcile to the accounting records.

**Comments:** The Agency agrees with this finding. The problem occurred with a change in accounting software during the year. Incorrect balances for fringe benefits and travel expenses were input into the new system, resulting in a variance on the Financial Status Report (FSR).

**Corrective Action:** The Director of Finance will implement monthly FSR review procedures for reasonableness and to ensure the monthly activity is properly recorded from the Accounting software to the FSR. Also, the Agency will implement an additional quarterly and year to date comparison of expenses in the accounting system to the FSR.

### Anticipated

**Completion Date:** The first quarterly and year to date expense comparison began with the September 30, 2004 period end FSR.

**MDCH Response:** No comment.